



## Darrell Lea

Rebirth of a legend

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# Darrell Lea – an Australian icon

- 1 Family owned since 1927
- 2 iconic Australian brand
- 3 local manufacturer
- 4 large employer
- 5 extensive retail
- 6 distribution network of 1,800 licensed outlets
- 7 sizeable exporter



# Why was Darrell Lea melting ?

Group trading results (\$000's) Year end 30 June

	2009	2010	2011	2012	2013(F'cast)
Net sales	106,348	103,070	98,562	93,191	82,376
Gross profit	42,755	38,441	38,596	33,564	33,373
Gross profit margin %	40.20	37.30	39.16	36.02	40.51
EBITDA					

Revenue fell 13% from 2009 to 2012

GM% falling year on year

High fixed cost base

Limited ability to flex business model

Seasonal funding requirement of up to \$10m

Family provided cash 'top-ups'

# Most Peculiar VA

Sales went up  
400% in the  
first week

Maintained at  
300% above  
expectations for  
whole  
Administration

Sold seven  
weeks of  
Rocklea Road  
stock in the  
first week

One of the  
highest trending #  
on twitter

- Decision to increase  
production on Day 3
- Increased overtime
  - Increased shifts
  - Making over 35  
tonnes of  
chocolate a day

The Prime  
Minister made  
a statement  
supporting the  
business

David Koch, Alan  
Jones and Hugh  
Jackman came  
out in support

“Save Darrell  
Lea”  
social campaigns  
launched on Facebook

Queues outside  
all stores,  
particularly King  
Street in Sydney

# Saving an icon



Public support was only going to last so long

Significant restructuring under Administration to prepare for sale:

- 70 store retail network closed
- 400 employees retrenched
- Loss making SKU's cancelled
- Excess inventory cleared

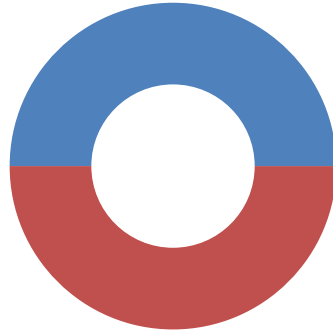
Unlikely that restructure could have been achieved outside of Administration

- Lease liability of \$20m
- Employee entitlements of \$19m

DARRELL LEA

Saving an Icon

# Turn around Credentials



■ Rehabilitation Business ■ Other

50% of the groups revenues derived from rehabilitated business

(ex administration or receiverships)

# The Darrell Lea that was!



**Turnover was \$100 Million**

30% higher than it is today at \$70 Million

**Product range was 5 Times the SKU count (750)  
Versus today at 150!**

**DLC had 800 Staff (400 of that in retail)**

*5.3 times greater than today's model of 150 staff members.*

**DLC was losing 140k per week**

(new model profitable in 6 weeks – cash positive in 10 weeks!)

***NOW GENERATING DOUBLE DIGIT - E.B.I.T.D.A. RETURNS***



# GUIDING PRINCIPLES TO ACQUIRING A DISTRESSED ASSET

## TIME IS OF THE ESSENCE

Validate the opportunity  
(small window of 2 weeks – go/no go)  
Certainty and timing of offer, increases access  
to information and distances competition

## PHILOSOPHICAL VIEW

If capital is all you bring to an acquisition –  
turnarounds are **NOT** for you

If you have no engagement or relationship with  
the target industry, its customers or its  
technologies - the risk is to great.

## UNDERSTANDING WHAT YOU'RE BUYING

Acquiring a distressed business is like mining...  
*... You have shift a lot of crap to get to the gold*

- What's the real value of tangibles &  
intangibles and are they intact past the  
recovery process.

## COMPETITIVE MOAT

### How Deep and Wide is it?

What are the barriers to entry & USP of the business?

identify current and emerging competitive threats

## REVENUE DRIVERS

Prior to purchase  
contact the top 4 customers (+ strategic suppliers).  
If your customers are not convinced  
of the strategic worth you should not be

## INTEGRITY OF CASH FLOW

What's at risk to the revenue base and what  
balances that risk?

## BUY YOUR PROFIT

Price paid needs to have adequate head space for  
risk yard stick, pay 50 cents for every dollar of value  
identified.

## BAGGAGE

Leave behind anything of risk or non core.  
Don't contaminate your future with mistakes of the  
past, if it could happen it will!

**BE SURE YOU OWN AND  
GET WHAT YOU'RE PAYING FOR!**

Title is contestable in distressed sales!

## IDENTIFY THE SAVINGS & IMPROVEMENTS

Discount model by 50 % - For every dollar saved –  
50 cents needs to be spent or is not recovered.

# KEY LEARNINGS

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## THE 90 DAY RULE

If you don't execute core strategy in 90 days – you will not secure the savings and improvements and will significantly place at risk the whole project

## SURGERY TRIAGE

Amputate and prepare to patch on the run.  
Maintain life support, adapt to changing conditions and circumstances.

## SIMPLICITY IS QUICKEST ROUTE TO RECOVERY

Complexity inhibits the process of change DL 750 plus products, rationalized 75

## THIS IS THE WAY WE HAVE ALWAYS DONE IT

DL DTS distribution 1600 outlets  
- not industry best practice

## SACRED COWS MAKE THE BEST BURGERS

Darrell Lea's selective retail outlet model lauded as strength (reverse eating them alive) restricting impulse buy opportunity's and Increased shopper frustration. Modern

## SYMPATHY HAS A SHORT MEMORY

Customers, suppliers, staff and unions adjust best to rapid change - price increases, role changes, cost outs, supportive in formative stage process.  
Resistance builds up post

# KEY LEARNINGS

## SHOCK & AWE APPROACH

A rapid, consistent deployment  
of resources maintains  
momentum of change

## BEWARE THE ENEMY OF PROGRESS LURKS WITHIN

Leading change can be difficult  
and more protracted with  
incumbents.  
Only two of DL management

## EMOTIONAL ATTACHMENT TO WAYS OF THE PAST IS LEGACY OF TENURE

Perverts clarity of thought

## SENIORITY IS NOT A MEASURE OF STRATEGIC WORTH

Identify the strategic holders of IP - Its most often at your feet on the production floor.

**In times of duress the price of doing something controversial  
is less than the cost of doing nothing!**

We're more interested in what we do next then what we did.



*“Slam the Door on the Past. Deal with the Present & the Future”*